

**TESTIMONY OF
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**BEFORE THE
HOUSE FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS**

“DIVERSITY: THE GAO PERSPECTIVE”

JULY 12, 2006

Introduction

Madam Chairwoman and members of the Subcommittee:

I am Marc Lackritz, President of the Securities Industry Association¹, and I appreciate the opportunity to testify on SIA’s and our member-firms’ commitment to diversity and inclusion within the securities industry and the U.S. capital markets.

We commend the Subcommittee for requesting that the Government Accountability Office study this important issue, and we are pleased to report that several of SIA’s member-firms cooperated with GAO in preparing the report. By sharing their diversity best practices and programs, our firms provided an important perspective on the breadth and depth of diversity activities in the securities industry. We believe this topic is critical to the future of our economy, our markets, our industry, and our investors.

¹ The Securities Industry Association brings together the shared interests of approximately 600 securities firms to accomplish common goals. Our primary mission is to build and maintain public trust and confidence in the securities markets. Our members (including investment banks, broker-dealers, and mutual fund companies) are active in all U.S. and foreign markets and in all phases of corporate and public finance. According to the Bureau of Labor Statistics, the U.S. securities industry employs nearly 800,000 individuals, and its personnel manage the accounts of nearly 93-million investors directly and indirectly through corporate, thrift, and pension plans. In 2004, the industry generated \$236.7 billion in domestic revenue and an estimated \$340 billion in global revenues. (More information about SIA is available at: www.sia.com.)

Beginning in 2005, SIA's Chairmen have made the expansion of our industry's diversity efforts a top strategic goal for SIA. Our aspiration is to ensure that the securities industry looks like America and is an inclusive, multicultural place to work. I am proud of the progress our firms have made to develop diversity initiatives in the workplace and improve their marketing to diverse customers. Our efforts are beginning to pay off as the number and variety of diversity programs in place among our member firms has risen dramatically. I am confident we will soon begin to see positive results from these efforts reflected in statistics. Yet we also recognize that more work needs to be done, and we assure you that we remain deeply committed to our goal of creating a diverse and inclusive workplace and an industry where anyone can succeed on his or her merits.

I will focus my testimony today on several initiatives we have developed to support our member-firms in their efforts to increase inclusion in the workplace. Specifically, I will discuss the results of the biennial survey we conducted in 2005 and highlight some of the most successful programs our firms have implemented. I will also touch briefly on some of the educational and other initiatives we have undertaken to help change the culture on Wall Street.

The Business Case for Diversity: Reaching Our Clients

The face of America is changing rapidly. By the middle of this century, about half of all Americans will be "minorities." African-Americans, Asian-Americans, Hispanic-Americans, and women are just four of the many groups that will make the market increasingly diverse in the coming years. The changing demographic trends deliver a clear message: securities firms must establish and support diversity programs in the workplace, and in the marketplace, if they are to succeed.

A decade ago, SIA member-firms realized that cultural awareness within global capital markets was critical to the industry's competitiveness, and that innovation, diversity, creativity, and resourcefulness were all necessary to maximize growth potential while discovering new markets. As a result, SIA formed a Diversity Committee of senior-level executives to increase industry understanding of the strong business case for building programs to develop multicultural workforces and client bases. The Committee's objective is to help shape an industry that is open to everyone, where employees are limited only by their own potential, clients' unique needs are actively served, and shareholders receive value for their investment.

Industry Survey

SIA conducts an industry-wide diversity study every two years to help our firms meet the challenges and maximize the opportunities of an increasingly diverse workforce and customer base. We began this benchmarking survey² – which helps track industry employment of minorities and women and identifies best practices in workforce diversity – in 1999 so we could evaluate our progress over time. We've learned that instead of emphasizing an end goal, the focus should be on the trend lines of progress and rates of change toward that goal. Some of the encouraging results include:

- Women account for 44 percent of the workforce as compared with 37 percent in 2003, which is an optimistic sign that the industry is moving toward parity with the general workforce.
- There has been a steady increase in the representation of people of color employed in the industry (21 percent in 2005 vs. 18 percent in 2003). We attribute much of this to the recent increase in the number of Asian/Pacific Islanders.

² The full report is available at <http://www.sia.com/hrdiversity/pdf/2005fullDiversityReport.pdf>

- Women now represent 19 percent of retail brokers, compared with 16 percent in 2003. People of color now represent nine percent of retail brokers versus eight percent in 2003.
- Nearly one-fourth of senior-level positions and over one-third of mid-level positions and analysts and associates are held by people of color. These data are a positive sign of more inclusive advancement and promotion policies.
- People of color have greater representation in the institutional business area than in the retail business area (this finding is strongest when analyzing trends for women of color.)
- Responding firms report that increased competitiveness in attracting key talent is the number one reason to continue advocating for a diverse and inclusive workplace and that race/ethnicity, gender and sexual orientation are the dimensions of diversity currently receiving the most attention.
- Almost one-half of responding firms indicate using internal employee surveys as the primary vehicle for assessing employee satisfaction.
- Large firms³ continue to lead the way on diversity with all respondents reporting that they have diversity initiatives in their firms.
- Almost half (47 percent) of participating firms report offering firm-wide career development-focused mentoring programs targeted toward women, people of color, and other diverse populations. This demonstrates an upward trend from 2001 and 2003 when 33 percent and 45 percent, respectively, offered such programs.

³ Defined as 8,000 or more employees.

- Nearly all respondents (85 percent) have flexible work policies and programs in place. This is a positive sign that employers throughout the industry are utilizing flexibility to retain valued employees and enhance their performance.

In spite of the many encouraging changes that have occurred over the last decade, we know we must make further inroads and improvements. We are dedicated to doing our best to ensure that equal opportunity is a hallmark of securities industry firms' employment strategies.

Recognizing Outstanding Leadership

SIA's Diversity Committee began offering a "Leadership Award" in 2002 to encourage and recognize innovation in the policies and programs firms use to attract and retain minority employees. This award honors our member-firms' commitment to building strong diversity initiatives and is a showcase for the depth and variety of diversity programs within the securities industry. Deutsche Bank and Lehman Brothers were the 2005 award recipients. Deutsche Bank won for its annual Women on Wall Street® conference, which provides a forum for networking, career development, and sharing business opportunities while promoting a community centered on professional Wall Street women. First launched in 1995, Deutsche Bank's conference highlights the success and achievements of women in financial services and other industries.

Lehman Brothers' award-winning Partnership Solutions Group serves as a centralized contact and relationship management team for the Lehman Brothers Institutional clients that are also firms owned by women and other minorities. PSG creates opportunities with women- and minority-owned financial services businesses of all types, including broker-dealers, hedge funds, private equity firms, commercial banks, real estate firms, as well as asset management firms.

In reviewing other diversity programs, we found several common elements that contribute to a firm's success. These include:

- Support, interest, and active engagement from senior management;
- Delegation of responsibility for diversity to target-strategy teams or dynamic task forces;
- Encouragement of a corporate culture that emphasizes diversity and provides training and education to employees to be sensitive and supportive of this goal;
- Networking – a critical component of the securities industry – to identify, recruit, hire, and retain women and people of color;
- Innovative programs that reach out to communities to hire people while providing support and mentoring throughout a new employee’s first few years;
- Targeted recruiting efforts and partnerships with established organizations that support women and minorities (*e.g.*, INROADS, SEO, TOIGO, Black MBA Conference, Hispanic MBA Conference);
- Establishment of associations or networks within the company for various ethnic groups, women, and gays and lesbians.

Notwithstanding the highly competitive nature of our industry, our firms have willingly discussed the challenges they faced in getting their initiatives off the ground. Similarly, they have shared details on the steps they have taken to turn those challenges into successes. All firms stand to benefit from a heightened awareness that the securities industry is indeed an “employer of choice” for women and people of color.

Educational Initiatives

SIA’s Diversity Committee has made significant progress on the educational front. In 2005, in cooperation with SIA’s Human Resources Management Committee, the Diversity Committee sponsored its first annual diversity/human resources conference and exhibit. Our

2006 conference, *“People Strategies: Creating Competitive Advantage,”* is scheduled for October 10-11 in New York City.

The Diversity Committee also maintains a comprehensive Web site with links to online resources and holds periodic teleconferences that allow human resources and diversity managers to share experiences and suggestions that helped strengthen their own firms’ initiatives.

Teleconference topics covered in 2006 include *“Creating a Win-Win Supplier Diversity Program”* and *“Religion and Spirituality in the Workplace: The Next Frontier in Diversity and Inclusion.”* Similarly, the Committee launched a Roundtable group that meets periodically to discuss such topics as recruitment, retention, and metrics.

About five years ago, we made diversity part of the core curriculum of the Securities Industry Institute. The Securities Industry Institute – held at the University of Pennsylvania’s Wharton School of Business – is the industry’s premier development program for industry professionals. All participants must attend a diversity program each of their three years as part of their SII education. Including diversity helps participants develop the necessary skills to become diversity champions within their own firms.

A related educational program – The Stock Market Game – makes a very valuable contribution to the work we are doing. Since its introduction in 1977, this online investment education program has become one of the most widely used classroom tools to teach students about the American economic system and the role of the securities industry in that system. More than half-a-million students in grades 4-12 participate in this engaging investment education program annually.

InvestWrite, a student essay competition program currently in its second year of operation, attracted more than 12,000 submissions. Capitol Hill Challenge, which builds links

between members of Congress and home-district Stock Market Game programs, doubled its number of participating Senators and Representatives. Path to Investing, an educational Web site, has grown to include more than 1,500 pages of content.

Conclusion

SIA and our member-firms are committed to creating a diverse and inclusive workplace where all employees can succeed on their merits. As our client base becomes increasingly diverse, we understand the importance of hiring, training, and retaining a diverse workforce to best meet our clients' needs. Although we have made significant progress in a variety of areas, we know we must do more in the years ahead. We welcome your subcommittee's input on how we may further improve our diversity programs, and we look forward to working with you to achieve that important goal.

Thank you.